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ABSTRACT

A summary of proposed K-12 educational spending in California for 1998-99, comparing today's proposals with expenditure patterns of the recent past, is presented in this report. The text highlights current spending proposals and provides some background on historical spending patterns and their causes, as well as demographic information on the 5.3 million children enrolled in California's 999 public school districts. It also describes the major issues facing state policy makers as they consider school funding issues in the upcoming months. The paper focuses on how California's spending compares to other states; the state's class-size reduction program; school finance equalization; and categorical programs, which account for 30 percent of total school district revenues. The paper argues that, in the future, California legislators will need to concentrate efforts on constructing new facilities and maintaining existing ones; simplifying the existing finance system; focusing categorical programs on students and not on districts; and funneling more money to the schools. Four tables provide further information on sources of revenue for education, the ratio of staff to students by position, and other information. (RJM)

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More Money for Schools, But What Will it Buy?

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More Money for Schools, But What Will it Buy?

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Introduction

In 1991, when California school officials were told that the cost of living adjustment (COLA) in their revenue limits for the 1991-92 school year would only be two percent rather than the anticipated five percent, there was considerable concern over how school districts would be able to cope with this "reduction" in funding. In fact, the two percent estimate was overly optimistic. In reality, school districts did not receive a COLA that year, the only funding increases being those to fund increases in enrollment. Moreover, this continued for three more years. Thus, after four years with no real growth in their general revenues, when small increases were proposed for fiscal year 1995-96, school districts were delighted at the prospect. In four short years, an increase on the order of two percent had gone from being inadequate to a much appreciated boost in funding.

Today, California's economy is growing at a near record pace. As a result, state coffers are fuller than at any time in recent memory. As the Legislature and Governor sit down to debate the state's spending priorities, school districts are in line to receive substantial increases in funding. Even if there is considerable growth in funding, per pupil expenditures will be more than \$1,000 below the national average; the state is still likely to have the largest average class size in the nation, and California will still find itself having to meet the expensive needs of increasing numbers of children who come to school from low income families and/or for whom English is not their first language. So although the fiscal picture is brighter than it has been in years, it is far from certain that there will be sufficient new funds to overcome years of fiscal neglect.

This paper provides a summary of proposed K-12 educational spending in California for 1998-99, comparing today's proposals with expenditure patterns of the recent past. The paper highlights current spending proposals, and provides some background on historical spending patterns and their causes, as well as demographic information about the 5.3 million children enrolled in California's 999 public school districts. It also describes the major issues facing state policy makers as they consider school funding issues in the coming months. This is followed by some conclusions that will hopefully place California's situation in a national perspective.

California School Finance

Overview

Governor Pete Wilson's proposed K-12 budget for 1998-99 totals more than \$39 billion. This represents an increase of \$1.7 billion or 4.2 percent over estimated 1997-98 spending, or \$5,635 per student in Average Daily Attendance (ADA) under the state's new method for counting pupils.¹ Table 1 shows how revenues for schools have changed since 1995-96 in California.

The Governor proposes to spend the additional \$1.7 billion on the following programs (Legislative Analyst, 1998):

- \$507.1 million for enrollment growth, based on a projected growth in ADA of 1.73 percent in 1998-99.
- \$657 million to provide a 2.22 percent cost of living adjustment (COLA).
- \$350 million to buy out eight staff development days.
- \$135 million to expand the deferred maintenance program.
- \$123.5 million for expanded day care programs.

Of these recommendations, the most controversial is the recommendation to increase spending to buy out staff development days by \$350 million to a total of \$400 million. Under current school law, a district may use up to eight days a year for staff development activities. This proposal calls for elimination of the staff development days during the regular school year so that students attend the full number of days a district's schools are in session. Staff development activities would then take place outside of the regular school year, and the state would provide funding of \$220 per teacher per day for this activity.

Insert Table 1 About Here

How California Compares

The 5,553,275 children enrolled in California's public schools in 1996 were served by 999 school. This consisted of 585 Elementary, 104 High School and 310 Unified districts. Over 350 districts across the state had less than 500 students enrolled. At the other extreme, Los Angeles Unified had over 667,000 children or 12 percent of the state's school population. In fact, Los Angeles by itself has more students enrolled than do the 650 smallest districts in the state combined. The tremendous variation in district size, geography and student needs exhibited by districts in California poses special challenges to education in the Golden state.

Even though the \$39.6 billion dollars proposed for next year is more than any other state in the nation spends on K-12 education, this only amounts to \$5,635 per ADA, placing California substantially behind most other states in terms of per pupil spending. In 1995-96, the last year in which comprehensive comparative data were available, California had the largest number of pupils enrolled per teacher in the nation, with an average of 24.1 pupils per teacher compared to a national average of 17.1. On the other hand, the state's average teacher salary of \$43,114 ranked eighth, some \$5,400 above the national average of \$37,685. Despite ranking 15th in per capita personal income in 1994, public school revenue per \$1,000 of personal income of \$42 placed the state 36th in the nation. According to EdSource (1998), the state's ratio of staff other than teachers to students was also among the worst in the nation. These figures are summarized in Table 2.

Insert Table 2 About Here

At the same time, over 24 percent of California's school children are classified as Limited English Proficient (LEP). Some 46 percent of the children in the state qualify for free or reduced price lunches at school, while 20 percent qualify for AFDC. Nearly 60 percent of the students in the state are classified as minorities, and this number is growing rapidly (EdSource 1998).

Class Size Reduction Program

Looking more closely at school funding issues, the state's class size reduction program, passed in July 1996, and currently in its second year of implementation has been successful in limiting the number of children in first and second grade classes to no more than 20 per teacher. According to EdSource (1998), in 1996-97, 88 percent of all first graders were enrolled in classes of

20 or less. That year, 58 percent of second graders were in the smaller classes, while the relevant figures for grades three and kindergarten were 18 percent and 14 percent respectively. In 1997-98 higher percentages of children in grades K-3 were enrolled in smaller classes.

School finance Equalization

The state has substantially met the *Serrano* equity requirement that wealth related per pupil spending differences be reduced to no more than \$300 per ADA (\$100 adjusted for inflation since the court ruling in 1976). Table 3 shows the percentage of students by type and size of school district that are within the *Serrano* bands. The table shows that overall, 97.31 percent of the students in the state are in districts within the *Serrano* equity bands. Moreover, only 0.01 percent (one hundredth of one percent) of the students in the state (all of them in elementary districts with fewer than 100 students) are in districts spending below the bottom of the *Serrano* equity bands.

Insert Table 3 About Here

Unfortunately, as Murphy and Picus (1997) show, the funding mechanisms for special education and pupil transportation often lead to school districts spending resources from their general funds on these services. This so called encroachment, is not necessarily a problem, however Murphy and Picus (1997) show that the per pupil level of encroachment varies considerably across the 88 unified districts they studied. This variation in per pupil levels of encroachment leads to less equitable distribution of general revenues to students across the state, and potentially places the state at risk of being out of compliance with *Serrano*.

Categorical Programs

It is important to remember that the revenue limit funding system includes only 70 percent of total school district revenues. The balance of district revenues come from categorical programs (Legislative Analyst, 1998). California has a proliferation of categorical programs, many established to direct funds to specific groups of districts. Most of these programs provide funds to districts that qualify in their initial year of implementation, and then increase appropriations by a COLA, with little regard to identified student needs. As a result, many children who could benefit from the funds are left out, while children in other districts receive differing levels of per pupil funding depending on the relative number of qualifying children compared to when the program was initiated.

Over time, the percentage of total revenue devoted to categorical programs has increased. According to the Legislative Analyst, in 1982-83, 77 percent of state and local spending on K-12 education was provided through revenue limits - district general purpose revenues. The shift to the current level of 70 percent represents more than \$2.1 billion that today would be available for general purpose funding if the proportion had remained constant over time.

Table 4 provides a summary of proposed appropriations for major categorical programs for 1998-99. The mega-item was created in 1992 to provide districts with more flexibility in the use of categorical funds. Districts may shift up to 15 percent of the funding in any program to others in the mega-item, and can increase spending in any of the individual items within the mega-item by up to 20 percent. In addition, mega-item funding can be used for Healthy Start or Conflict Resolution programs.

Insert Table 4 About Here

The single largest categorical program is special education. In 1997, the Legislature dramatically changed the way special education is financed in California. Under the existing system, which is being phased out, district special education allocations were based on the number of students assigned to different service delivery modes. Districts received reimbursement for direct

costs and a support services ratio for each program generated by children with disabilities enrolled in special education programs. The reimbursement level and support services ratio for each district's special education programs was determined in 1982-83, and those funding levels have been adjusted by COLAs since that time. The problem is that the COLAs have had little relationship to either the actual change in the cost of living, or to changes in district cost structures. Consequently, California developed a very complex special education funding system that did little to meet the needs of the children being served.

The 1997 Legislature changed the funding formula to provide money to school districts on the basis of total enrollment. It now becomes the district's decision as to how the funds should be spent to meet the needs of their children with disabilities. Before fully implementing the new formula, the state has contracted for a study of the incidence of students with severe disabilities so that the Legislature can determine whether or not there is a need for a program to assist districts faced with an influx of children requiring expensive services. The studies are to be completed in June, and it is anticipated that the Legislature will act sometime in 1998 on this issue.

Facilities

The California Department of Education projects that there will be approximately 6.4 million students in California by 2005. To meet the needs of these students, it is estimated that \$15 billion in new school construction will be needed. Those funds will be particularly critical at the high school level where enrollments are expected to grow by 35 percent in the next ten years.

Because classroom space has been at a premium across the state, most districts attempting to reduce class size in response to the class size reduction program have relied on conversion of existing facilities or temporary buildings to house the new classes. The cost of building new classrooms to house these classes is estimated to be another \$2.5 billion. If more grade levels are added to the program, this estimate will increase.

In addition to construction of new facilities, many schools need major rehabilitation and upgrading, estimated to cost \$22.6 billion over the next ten years. At the same time, deferred maintenance needs of existing schools amount to another \$6 billion.

Funding for these facility needs is difficult. Districts can, with approval of 2/3 of their voters use general obligation bonds to fund facilities. The state operates a lease purchase program for new school construction, funded with some \$9.8 billion in state bonds between 1987 and 1997. However, these funds have already been committed to construction projects and more is needed. As of March 10, the legislature failed to pass a \$9.2 billion bond measure proposal for submission to the voters at the June 1998 election. The measure was victim to disagreements over whether to also ask the voters to reduce the vote required for bond measures to a simple majority, and issues related to capping developer fees to finance school facilities. It is not clear if this bond measure will get a second chance later in the Legislative session.

Conclusions

As this brief discussion shows, there are a number of important school funding issues facing California's policy makers in the near future. Specifically, it seems that policy makers will need to consider the following:

Simplification of the existing finance system

Among the 50 states, California's school finance formula is perhaps the most complex. Rather than reform the system from top to bottom, as is generally done in other states, California's response to school finance reform has been to layer additional formulas and programs on top of the existing program. The result is a system so complex and unintelligible that only a few individuals in

Sacramento are able to navigate through the thicket. School finance theory suggests that a more straightforward and simple approach to the distribution of funds is more efficient, and more likely to insure that funds are targeted to the students for which they are intended (see for example, Odden & Picus, 1992).

Focusing Categorical Programs on Students Not Districts

Today there are over 70 state and Federal categorical programs in California, ranging from special education, which accounted for nearly \$2 billion in state funds in 1996-97, to very small programs such as restructuring grants for which just over \$26 million was appropriated in 1996-97. The funding requirements of each program are different, and often confusing. The Legislative Analyst offers an interesting perspective on the importance state policy makers have begun to place on the use of categorical programs to direct money to certain districts and/or to accomplish specific state goals. In her analysis of the Governor's 1997-98 budget bill, the Legislative Analyst states that the growing emphasis on categorical programs means that none of the new 1997-98 money available to schools under the requirements of Proposition 98 will be available for locally determined priorities. She argues that none of the increased funding projected for 1997-98 will be used to increase revenue limit funding beyond the statutorily required COLA, concluding that "As a result, the budget would provide increases only in those targeted areas and not for needs identified by local school boards" (Legislative Analyst, 1997: 12).

More Money For Our Schools

As indicated above, per pupil spending for California school children lags substantially behind most of the rest of the United States. The state needs to improve on that standing if its children are to have a chance of succeeding in the next century.

While it is true that researchers have had a great deal of trouble linking the level of spending to improvements in student test scores (see for example, Picus, 1997), a growing number of economists, have begun to show that there is a relationship between indicators of school quality and increased future earnings. Most of the measures of school quality, in particular class size, are highly correlated with expenditures. This means that money may really make a difference. Moreover, if better quality schools lead to higher earnings, that has important and positive implications for our state's economic productivity and consequently for the state's tax revenues.

What is remarkable about both California and the nation is how similar school district spending patterns are, regardless of the total spent. The proportions devoted to major functional areas such as instruction, administration, transportation, etc. are very similar in all districts across the United States. If schools are not succeeding, then perhaps it is time to ask how those funds are being spent before we provide more money to the schools.

As a consequence, we need more money for schools in California, but that money should not simply be given to school districts to use as they have in the past. Rather, it is important to create incentives for districts to use funds in ways that research shows do improve student learning. As an example, more money should go to professional development. But these funds need to purchase programs that will help teachers improve their teaching. Additionally, the salary increments that go along with professional development should be tied to programs that we know work and that focus on the identified needs of the school where the teacher involved is employed.

In short, we need more money, but we need to spend it more wisely.

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Endnotes

¹ Under Senate Bill 727 (Chapter 855, Statutes of 1997), funding for excused absences was eliminated from revenue limit funding. Prior to this legislation, ADA was calculated as the number of children present each day, plus the number of children with excused absences each day divided by the total number of days the district operated schools. Under SB 727, revenue limit funding (which constitutes virtually all of a school district's general funds and some 72 percent of total K-12 funding) is only provided for students that actually attend school. For the first year of implementation, (1997-98) revenue limits were increased to hold districts harmless from the financial costs of this program. As a result, beginning in 1998-99, districts that are able to reduce their absence rates will benefit financially, while those that have increased numbers of absences will receive less revenue limit funding. The result is ADA calculations beginning with 1997-98 are not readily comparable with earlier years. (For details on this state law, see Legislative Analyst, 1998a, p. E-45 forward).

Table 1
Sources of Revenue for K-12 Education in California: 1994-95 to 1998-99

Category	1994-95			1995-96			1996-97			1997-98 (estimated)			1998-99 (proposed)		
	Amount in millions (\$)	Amount in millions (\$)	Percent Increase Over Previous Year (%)	Amount in millions (\$)	Amount in millions (\$)	Percent Increase Over Previous Year (%)	Amount in millions (\$)	Amount in millions (\$)	Percent Increase Over Previous Year (%)	Amount in millions (\$)	Amount in millions (\$)	Percent Increase Over Previous Year (%)	Amount in millions (\$)	Amount in millions (\$)	Percent Increase Over Previous Year (%)
Federal Aid	2,449	2,591	5.80%	2,761	2,761	6.55%	3,350	3,350	21.36%	3,438	3,438	2.62%			
State Aid	15,658	17,830	13.87%	19,945	19,945	11.86%	22,519	22,519	12.91%	23,582	23,582	4.72%			
Property Tax	8,573	8,575	0.02%	8,524	8,524	-0.60%	8,881	8,881	4.19%	9,241	9,241	4.06%			
Local Misc.	2,110	2,188	3.70%	2,590	2,590	18.37%	2,584	2,584	-0.22%	2,587	2,587	0.12%			
Lottery	643	392	-39.04%	585	585	49.31%	657	657	12.16%	755	755	15.02%			
Total	29,433	31,576	7.28%	34,405	34,405	8.96%	37,991	37,991	10.42%	39,603	39,603	4.24%			

Sources: 1994-95 - Edsource, 1997

1995-96 - Edsource, 1998

1997-98 and 1998-99 - Legislative Analyst, 1998

Table 2
Ratio of Staff to Students by Position, 1995-96:
California Compared to the United States

Ratio of Staff to Students By Position	California Rank in United States	California Average	U.S. Average
Total school staff to students	50	1 to 12	1 to 9
Professional Staff to students			
District officials/administrators	49	1 to 2,569	1 to 909
School principals and assistant principals	50	1 to 536	1 to 372
Guidance Counselors	51	1 to 1,082	1 to 512
Librarians	51	1 to 6,179	1 to 882

Source: EdSource 1998

Table 3
Students Within the Serrano Band Adjusted for Inflation, 1996-97

District Type	Percent of Students (%)		
	Below Band	Within Band	Above Band
Elementary Districts			
Small	8.28	80.01	11.71
Large	0	95.18	4.82
High School Districts			
Small	0	100.0	0
Large	0	97.37	0.63
Unified Districts			
Small	0	85.83	14.17
Large	0	97.86	2.14
All Districts	0.01	97.31	2.68

Source: EdSource, 1998

Table 4
Major State Funded K-12 Education Programs:
Proposed Budget, 1998-99

Program	Proposed 1998-99 Appropriation (millions of dollars \$)
Mega Item	
Desegregation	613.9
Economic impact aid	401.2
Home to school transportation	523.4
School improvement	394.7
Instructional materials	172.1
Other Programs	576.4
Sub-total - Mega Item	2,681.6
Other Programs	
Special Education	2,130.8
Class size reduction	1,546.1
Child development	803.2
Adult education	498.0
ROC/P	309.5
Summer school	180.8
Mandates	140.9
Staff development day buy-out	400.0
Digital high school	76.0
Deficit factor buy-out	52.9
Deferred maintenance	135.0
Other programs	320.9
Sub-total -- Other programs	6,594.2
Total State Categorical Funding	9,275.8